

DIRECT TESTIMONY AND EXHIBITS OF

GABY SMITH

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2018-2-E

IN RE: ANNUAL REVIEW OF BASE RATES FOR FUEL COSTS FOR

SOUTH CAROLINA ELECTRIC & GAS COMPANY

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Gaby Smith. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as an Audit Manager, in the Audit Department of the South Carolina Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Accounting from the University of South Carolina in May 2006. Prior to joining ORS, I held a variety of positions in finance, accounting, and auditing. I began my employment as an auditor with ORS in July 2009 and have participated in various cases involving the regulation of electric, telecommunication, water and wastewater utilities. I have previously testified before the Public Service Commission of South Carolina ("Commission") on several Fuel Adjustment Clause ("FAC") filings, as well as water, wastewater, and electric rate cases.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to present the results of ORS Audit Staff's

examination of the books and records pertaining to South Carolina Electric & Gas Company's ("SCE&G" or "Company") operations under the FAC. The current fuel examination covered the actual period of January 2017 through December 2017 ("actual review period") and four (4) estimated months from January 2018 through April 2018 ("estimated review period").

Q. WHAT WAS THE PURPOSE OF THIS EXAMINATION?

A. The purpose of this examination was to verify that the Company's accounting practices in computing and applying the monthly FAC comply with S.C. Code Ann. § 58-27-865.

Q. WHAT WAS THE SCOPE OF ORS'S EXAMINATION?

A. ORS Audit Staff examined and verified the monthly fuel adjustment factor calculations and the fuel recovery balances recorded in the Company's books and records. The Audit Staff's examination consisted of the following:

1. Analyzing the Fuel Stock Account

ORS's analysis of the fuel stock account consisted of verifying receipts to and issues from the fuel management system to the general ledger, examining monthly fuel charges originating in fuel accounting, and ensuring that only proper charges were entered in the Company's computation of fuel costs for purposes of adjusting the base fuel factor.

2. Sampling Receipts to the Fuel Stock Account

ORS's review of receipts to the fuel stock account consisted of examining and testing selected transactions to ensure additions to the account are supported. Each selected transaction examined was tested for mathematical accuracy and vouched

1 to a commodity received report, corresponding waybill, supplier invoice, and
2 freight study detail report. Transactions were then verified to a fuel management
3 system payment voucher to verify payment of the correct amount to the vendors.

4 3. Verifying Charges to Nuclear Fuel Expense

5 ORS verified the amounts of nuclear fuel expense to the books and records for the
6 actual review period. Additionally, the accuracy of these amounts was verified to
7 the Company's amortization schedules.

8 4. Verifying Purchased and Interchange Power Fuel Costs

9 ORS verified the Company's purchased and interchange power fuel cost, kilowatt-
10 hour ("kWh") purchases, and kWh sales for the actual review period to various
11 "energy received" and "energy delivered" summary reports, purchases, sales, and
12 interchange power schedules, and monthly invoices, on a sample basis. ORS
13 recomputed the Company's sales and purchases for the actual review period. The
14 purchased and interchange power amounts for the actual review period and the
15 resultant (over)/under-recovery monthly deferred fuel amounts for the period
16 reflect calculations that conform to S.C. Code Ann. § 58-27-865, the statute
17 addressing fuel costs related to purchased power. Subsection (A)(2)(b) of this
18 statute states that the total delivered cost of economy purchases, including, but not
19 limited to, transmission charges, are included in purchased power costs if those
20 purchases are "less than the purchasing utility's avoided variable costs for the
21 generation of an equivalent quantity of electric power." ORS verified economic
22 purchases were recorded at or less than the applicable avoided costs.

23 5. Verifying kWh Sales

1 ORS verified total system kWh sales, as filed in the monthly fuel factor
2 computation, to monthly class/rate summary reports for the actual review period.
3 The monthly kWh sales figures were then used to determine the fuel cost per kWh
4 sold and the monthly fuel cost adjustment factors.

5 6. Recalculating the Fuel Adjustment Factors and Verifying the Current Month
6 (Over)/Under Recovery

7 ORS recalculated the fuel cost adjustment factors for the actual review period
8 utilizing information obtained from the Company's records and verified these total
9 fuel costs to the Company's books and records. In recalculating the monthly
10 factors, ORS divided total fuel costs by total system kWh sales to arrive at fuel
11 costs per kWh sold. The base fuel cost per kWh was then subtracted from the actual
12 fuel cost per kWh sold to compute the current month (over)/under-recovery. The
13 actual current month (over)/under recoveries were then verified to the Company's
14 books and records.

15 7. Recalculating the True-up of the (Over)/Under-Recovered Fuel Costs

16 ORS analyzed and recomputed the cumulative (over)/under-recovery of the base
17 fuel costs for the actual review period and (over)/under-recovery for the estimated
18 review period. In addition, ORS recomputed the cumulative (over)/under-recovery
19 of environmental and avoided capacity costs for the actual and estimated review
20 periods as approved in Order No. 2017-246.

21 **Q. PLEASE EXPLAIN THE AUDIT EXHIBITS ATTACHED TO YOUR**
22 **TESTIMONY.**

23 **A.**ORS prepared the following audit exhibits from the Company's books and records:

**AUDIT EXHIBIT GS-1: TOTAL RECEIVED AND WEIGHTED AVERAGE
COST**

This audit exhibit details total received cost for the actual review period of \$516,825,377 for coal, #2 oil, and natural gas. ORS also computed the weighted average cost of each type of fuel: coal (\$82.55 per ton), #2 oil (\$1.99 per gallon), and natural gas (\$3.57 per thousand cubic feet ("MCF")).

AUDIT EXHIBIT GS-2: RECEIVED COAL – COST PER TON COMPARISON

This audit exhibit details the received cost per ton of coal for each month of the actual review period for SCE&G, Duke Energy Carolinas, LLC, and Duke Energy Progress, LLC. For comparison purposes, ORS has shown the invoice cost per ton, freight cost per ton, total cost per ton, and the cost per thousand British thermal units ("MBTU").

AUDIT EXHIBIT GS-3: BURNED COST – CONSUMED GENERATION

This audit exhibit details the per book cost of fuel burned for electric generation during the actual review period. The burned cost of each class of fuel is shown separately along with its percentage of total burned costs. These costs are used in the computations of the base fuel cost component.

AUDIT EXHIBIT GS-4: COST OF FUEL

This audit exhibit details ORS's computation of the total fuel cost applicable to the fuel recovery calculation. There are four (4) components included in this cost, and they are as follows:

- (1) Cost of Fuel Burned
- (2) Fuel Cost of Purchased and Interchange Power
- (3) Fuel Cost Recovered from Intersystem Sales

(4) Public Service Authority ("Santee Cooper") Credits

Cost of Fuel Burned - This amount is the total cost of all fossil and nuclear fuel burned during the actual review period and used in the base fuel component computation. A detailed breakdown of coal, #2 oil, natural gas, and nuclear fuel can be seen in Audit Exhibit GS-3.

Fuel Cost of Purchased and Interchange Power - This amount is the total fuel cost of monthly kWh purchases from other electric utilities or power marketers.

Fuel Cost Recovered from Intersystem Sales - This amount is the total fuel cost recovery related to kWhs sold during to other electric utilities or power marketers.

Public Service Authority Credits – This amount represents recovery of Santee Cooper's portion of the electric costs at the new nuclear construction site.

AUDIT EXHIBIT GS-5: DETAILS OF THE COMPUTATION OF BASE FUEL (OVER)/UNDER-RECOVERY

This audit exhibit details the monthly (over)/under-recovery of base fuel cost computations for the actual review period as well as fuel costs for the estimated review period. The exhibit also shows the computations of the actual and estimated cumulative (over)/under-recovery balances and various adjustments for January 2017 through April 2018.

AUDIT EXHIBIT GS-6: TOTAL ENVIRONMENTAL COSTS

This audit exhibit details the total environmental costs for the actual review period for sulfur dioxide ("SO₂") emission allowances, nitrogen oxide ("NO_x") emission allowances, lime/limestone, and ammonia. Additionally, the percentage of total cost is shown for each environmental component.

**AUDIT EXHIBIT GS-7: DETAILS OF THE COMPUTATION OF THE
(OVER)/UNDER-RECOVERY OF ENVIRONMENTAL AND AVOIDED
CAPACITY COSTS**

This audit exhibit details the monthly (over)/under-recovery of environmental and avoided capacity cost computations for the actual review period for SO₂ and NO_x emission allowances, lime/limestone, ammonia, avoided capacity costs, and estimates of these costs for the estimated review period. The exhibit also shows the computation of the cumulative (over)/under-recovery balances and various adjustments for January 2017 through April 2018.

Due to the enactment of 2014 S.C. Acts 236 ("Act 236"), the avoided capacity component of certain purchased power costs are now required to be allocated and recovered as a separate component of the overall fuel factor in the same manner as environmental costs.

**AUDIT EXHIBIT GS-8: DETAILS OF THE COMPUTATION OF THE
(OVER)/UNDER-RECOVERY OF DISTRIBUTED ENERGY RESOURCE
PROGRAM ("DERP") AVOIDED COSTS**

This audit exhibit details the monthly (over)/under-recovery of DERP avoided cost computations for the actual and estimated review periods. ORS agreed avoided cost components to "bill credit agreement" reports, invoices, journal entry detail, revenue and unbilled revenue reports. DERP avoided costs are further explained in the testimony of ORS witness Johnson.

**AUDIT EXHIBIT GS-9: DETAILS OF THE COMPUTATION OF THE
(OVER)/UNDER RECOVERY OF DISTRIBUTED ENERGY RESOURCE
PROGRAM INCREMENTAL COSTS**

1 This audit exhibit details the monthly (over)/under-recovery DERP incremental cost
2 computations by month for the actual and estimated review periods. ORS tested selected
3 administrative and general expenses, and recalculated depreciation expense and carrying
4 cost computations. ORS also agreed incremental cost components to "net metering costs"
5 reports, invoices, journal entry detail, revenue and unbilled revenue reports. DERP
6 incremental costs are further explained in the testimony of ORS witness Johnson.

7 **Q. PLEASE EXPLAIN ORS AUDIT STAFF'S COMPUTATION OF THE**
8 **CUMULATIVE (OVER)/UNDER-RECOVERY OF FUEL COSTS IN EXHIBIT**
9 **GS-5.**

10 **A.** ORS Audit Exhibit GS-5 provides details of ORS's calculation of the actual
11 cumulative under-recovery balance through December 2017, and the estimated over-
12 recovery balance through April 2018. The cumulative under-recovery amount as of
13 December 2017 totaled \$2,355,695. This amount includes several adjustments which are
14 discussed below. ORS then added SCE&G's estimated under-recoveries of \$53,056,195
15 for January 2018, \$3,522,231 for February 2018, \$2,394,603 for March 2018, and
16 \$3,765,128 for April 2018, and various Company adjustments to arrive at a cumulative
17 over-recovery of \$50,536,981 through April 2018. Company witness Rooks' testimony
18 (Exhibit No. ____ (AWR-1)) in this docket reports the same cumulative under-recovery total
19 through December 2017, and the same cumulative over-recovery total through April 2018
20 as calculated by ORS.

21 **Q. DID THE COMPANY MAKE ANY ADJUSTMENTS OR TRUE-UPS DURING**
22 **EITHER THE ACTUAL OR ESTIMATED REVIEW PERIODS FOR THE BASE**
23 **FUEL COMPONENT?**

A. Yes. The Company made the following adjustments as shown on Audit Exhibit GS-5:

Adjustment (1) – Fixed Capacity Charges

The Company posted a monthly over-recovery adjustment of \$1,583,583 to the computation of the base fuel (over)/under-recovery. This adjustment consists of the Urquhart Plant and the Jasper Plant (Combined Cycle) monthly fixed capacity charges of \$673,417 and \$910,166, respectively, which are treated, in accordance with Commission Orders No. 2003-38 and No. 2005-2, on a retail basis, as over-recovery fuel entries.

Adjustment (2) – PR-1 Energy Credits

Due to the enactment of Act 236, purchased power avoided energy costs are now required to be recovered through the FAC. A portion of purchased power avoided energy costs is also currently being recovered in base rates. Therefore, the Company made monthly over-recovery adjustments of \$691 to prevent double collection of this portion of avoided energy costs.

Adjustment (3) – Company Accounting Adjustments

During the actual review period, the Company recorded the following adjustment:

(3A) – In March 2017, the company made an over-recovery adjustment of \$183,187 to account for a true-up in fuel expenses billed by Kapstone for January and February 2017.

During the estimated review period, the Company recorded the following adjustments:

(3B) – In January 2018, the Company made an under-recovery adjustment of \$411,384 to account for purchased power payments for October, November and December 2017 that were inadvertently omitted.

(3C) – In February 2018, the Company made an over-recovery adjustment of \$113,739,272 to offset base fuel costs with a gain from interest rate swaps.

Adjustment (4) – Unbilled Fuel Cost (Over)/Under-Recovery Adjustments

In both the actual and estimated review periods, the Company reflects monthly adjustments to account for the timing difference associated with kWh sales not yet billed due to the cycle billing process, whereas the FAC process reflects all unbilled fuel transactions (sales and costs) on a full monthly basis.

Q. PLEASE EXPLAIN ORS AUDIT STAFF'S COMPUTATION OF THE CUMULATIVE (OVER)/UNDER-RECOVERY OF ENVIRONMENTAL AND AVOIDED CAPACITY COSTS IN EXHIBIT GS-7:

A. ORS Audit Exhibit GS-7 provides details of ORS's calculation of the cumulative environmental and avoided capacity costs over-recovery balance of \$2,272,425 through December 2017. ORS then added estimated under-recoveries of \$324,293 for January 2018, \$335,912 for February 2018, \$408,940 for March 2018, and \$267,642 for April 2018, and various Company adjustments to arrive at a cumulative over-recovery balance of \$1,051,097 through April 2018. Company witness Rooks' testimony (Exhibit No. ____ (AWR-4)) reports the cumulative environmental and avoided capacity costs over-recovery total through December 2017 as \$2,272,425 and the over-recovery total through April 2018 as \$1,051,102. The variance between ORS and the Company's ending balance for April 2018 is due to rounding.

Q. DID THE COMPANY MAKE ANY ADJUSTMENTS OR TRUE-UPS DURING EITHER THE ACTUAL OR THE ESTIMATED REVIEW PERIODS FOR THE ENVIRONMENTAL AND AVOIDED CAPACITY COSTS COMPONENT?

1 **A.** Yes. The Company made the following adjustments as shown on Audit Exhibit GS-
2 7:

3 **Adjustment (5) – PR-1 Capacity Credits**

4 Similar to Adjustment (2), avoided capacity costs are now also recovered through the FAC.
5 A portion of avoided capacity costs is also being recovered in base rates. Therefore, the
6 Company made monthly over-recovery adjustments of \$84 to prevent double collection of
7 this portion of avoided capacity costs.

8 **Adjustment (6) – Company Accounting Adjustment**

9 In March 2017, the Company made an over-recovery adjustment of \$3,631 to account for
10 a true-up in reagent expenses billed by Kapstone for the months of January and February
11 2017.

12 **Adjustment (7) – Unbilled Fuel Cost (Over)/Under-Recovery Adjustments**

13 As discussed for base fuel costs in Adjustment (4), the cycle billing process also affects the
14 recovery of environmental costs. The Company posted monthly adjustments throughout
15 the actual review period and the estimated review period to account for timing differences.

16 **Q. PLEASE EXPLAIN ORS AUDIT STAFF'S COMPUTATION OF THE**
17 **CUMULATIVE (OVER)/UNDER-RECOVERY OF THE DISTRIBUTED ENERGY**
18 **RESOURCE PROGRAM AVOIDED COSTS IN EXHIBIT GS-8.**

19 **A.** ORS Audit Exhibit GS-8 provides details of ORS's calculation of the cumulative
20 DERP avoided cost over-recovery balance of \$1,504,687 through December 2017. ORS
21 then added estimated under-recoveries of \$119,665 for January 2018, \$216,415 for
22 February 2018, \$336,503 for March 2018, and \$467,905 for April 2018, to arrive at a
23 cumulative over-recovery of \$479,920 as of April 2018. Company witness Rooks'

testimony (Exhibit No. ____ (AWR-6)) reports the over-recovery total through December 2017 as \$1,504,690, and through April 2018, reports a cumulative over-recovery total of \$479,924. The variances between ORS and the Company's ending balances are due to rounding.

Q. DID THE COMPANY MAKE ANY ADJUSTMENTS OR TRUE-UPS DURING EITHER THE ACTUAL OR THE ESTIMATED REVIEW PERIODS FOR THE DISTRIBUTED ENERGY RESOURCE AVOIDED COSTS COMPONENT?

A. Yes. The Company made the following adjustments as shown on Audit Exhibit GS-8:

Adjustment (8) – Company Accounting Adjustments

During the actual review period, the Company recorded the following adjustment:

Adjustment (8A) – Final Billing

In February 2017, the Company made an under-recovery adjustment of \$185 to reflect prior year adjustments related to the excess net energy metering ("NEM") credit payments due to closing of customer accounts.

Adjustment (8B) – Utility Scale Test Power

In March 2017, the Company made an ~~under~~over-recovery adjustment of \$8,892 to account for December 2016 utility scale test power that was inadvertently omitted from the calculation during that month.

Adjustment (8C) – Excess NEM Credits

In August 2017, the Company made an ~~under~~over-recovery adjustment of \$263 to account for July 2017 excess NEM credits that were inadvertently omitted during that month.

Adjustment (9) – Unbilled Fuel Cost (Over)/Under-Recovery Adjustments

As discussed for base fuel costs in Adjustment (4), the cycle billing process also affects the recovery of DERP avoided costs. The Company posted monthly adjustments throughout the actual review period and the estimated review period to account for timing differences.

Q. PLEASE EXPLAIN ORS AUDIT STAFF'S COMPUTATION OF THE CUMULATIVE (OVER)/UNDER-RECOVERY OF DISTRIBUTED ENERGY RESOURCE PROGRAM INCREMENTAL COSTS IN EXHIBIT GS-9.

A. ORS Audit Exhibit GS-9 provides details of ORS's calculation of the cumulative DERP incremental cost under-recovery balance of \$798,037 through December 2017. ORS then added an estimated over-recovery of \$167,876 for January 2018, estimated under-recoveries of \$152,195 for February 2018, \$391,134 for March 2018, and \$697,793 for April 2018 to arrive at a cumulative under-recovery of \$1,871,283 as of April 2018. Company witness Rooks' testimony (Exhibit No. ____ (AWR-8)) reports the under-recovery total through December 2017 as \$798,039 and through April 2018, a cumulative under-recovery total of \$1,871,285. Variances between ORS and the Company's ending balances for December 2017 and April 2018 are due to rounding.

Q. DID THE COMPANY MAKE ANY ADJUSTMENTS OR TRUE-UPS DURING EITHER THE ACTUAL OR THE ESTIMATED REVIEW PERIODS FOR THE DISTRIBUTED ENERGY RESOURCE INCREMENTAL COSTS COMPONENT?

A. Yes. The Company made the following adjustment as shown on Audit Exhibit GS-9:

Adjustment (10) – Unbilled Fuel Cost (Over)/Under-Recovery Adjustments

As discussed for base fuel costs in Adjustment (4), the cycle billing process also affects the recovery of DERP incremental costs. The Company posted monthly adjustments throughout the actual review period to account for timing differences.

Q. WHAT IS THE RESULT OF ORS'S EXAMINATION?

A. Based on ORS's examination of the Company's books and records, and the Company's operations under the fuel cost recovery mechanism, ORS determined the Company's accounting practices are in compliance with S.C. Code Ann. § 58-27-865.

Based on ORS's examination, ORS agrees with the following (over)/under-recovery balances as stated by SCE&G:

- December 2017 fuel cost component under-recovery of \$2,355,695;
- December 2017 environmental and avoided capacity cost component over-recovery balance of \$2,272,425;
- December 2017 DERP avoided cost component over-recovery balance of \$1,504,690;
- December 2017 DERP incremental cost component under-recovery balance of \$798,039;
- April 2018 estimated fuel cost component over-recovery of \$50,536,981;
- April 2018 estimated environmental and avoided capacity cost component over-recovery balance of \$1,051,102;
- April 2018 estimated DERP avoided cost component over-recovery balance of \$479,924;
- April 2018 estimated DERP incremental cost component under-recovery of \$1,871,285.

1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 **A. Yes, it does.**